

The Financial Impact of CRM Programmes

Dr. Adam Lindgreen¹
Université catholique de Louvain

Dr. Gurvinder Shergill
Massey University

¹ The authors all contributed equally and have been listed alphabetically. Part of this article was written when the first author was a Visiting Professor with Auckland University of Technology, and the author thanks the university for inviting him to New Zealand, which allowed him to continue his research. The author also thanks Fonds National de la Recherche Scientifique for generous financial support.

Abstract

It has been argued that businesses across all sectors should move toward interactions, relationships, and networks. Customer relationship management is one such approach to marketing. Although some practical guidelines have appeared on how to design and implement customer relationship management programmes there are few articles discussing their financial impact on companies. This paper addresses the problem by discussing a conceptual framework that allows for a financial evaluation of programmes in areas that are relevant to customer relationship management.

Keywords: Customer relationship management (CRM); Financial Performance; Marketing scale development

Introduction

Over the past decades, it has been argued that businesses across all sectors should move toward interactions, relationships, and networks. Such a marketing approach is very different from the more traditional one of marketing through the 4Ps (i.e., product, price, place, and promotion). The customer market is among many different markets a firm needs to consider (i.e., customer relationship management) – with research suggesting that customer retention leads to increased market share and bigger profits. Although some practical guidelines have appeared on how to design and implement customer relationship management programmes there are few articles discussing the financial impact of such programmes on companies. This paper addresses the problem by discussing a conceptual framework that allows for a financial evaluation of programmes in areas that are relevant to customer relationship management.

The paper is structured as follows. The readers are first introduced to customer relationship management. Then the lack of research into the financial impact of customer relationship management programmes is discussed. Moving on, a conceptual framework that allows for a financial evaluation of programmes in areas that are relevant to customer relationship management is examined. The framework includes the development of a marketing scale. The consideration of the actual methodology brings the paper to an end.

Literature Review

From Transaction to Interactions, Relationships, and Networks

Traditionally, businesses have employed transaction marketing, that is, the 4Ps of product, price, promotion, and place (e.g., Borden 1965; Culliton 1948; Kotler 1997). However, over the past decades, it has been argued that businesses across all sectors should move toward supply chain management and, most recently, interactions, relationships, and networks (e.g., Day 2000; Grönroos 2000; Gummeson 1999; Hunt 2000; Peck *et al.* 1999; Webster 2000). The two different approaches to marketing have been compared and contrasted in Table 1.

Table 1. Attributes of marketing exchanges, characterised as transactional and relational respectively

Attribute	Old paradigm: Transactions	New paradigm: Interactions, relationships, and networks
Actors	The buyer has a generic need, and the seller has a generic offer	The buyer has a particular need, and the seller has a unique offer
Nature of marketing exchange	The products or services are standardised	The products or services are customised
Interaction between actors	The interaction between actors are characterised in terms of, for example, power, conflict, and control	The interaction between actors are characterised in terms of, for example, trust, commitment, and co-operation
Duration of marketing exchange	The duration of marketing exchanges is independent and discrete	The duration of marketing exchanges is on-going)
Structural attributes of market place	The structural attributes of market place is characterised as an anonymous and efficient market	The structural attributes of market place is characterised in terms of numerous networks to a network approach
Marketing approach	The marketing approach is the 4Ps or the marketing mix	The marketing approach is marketing through relationships, networks, and interactions

In the new marketing paradigm it becomes key for businesses to formulate their marketing activities to, and to build interactions, relationships, and networks with, a number of different, but often equally important markets (Figure 1). The multiple markets model recognises that there are a number of key markets that businesses need to consider. Apart from the customer market, potentially important markets include the following ones:

- Referral markets (word-of-mouth by customers);
- Supplier and alliance markets;
- Recruitment markets;
- Influencer markets (individuals or groups that directly or indirectly impact on the company);
- Internal markets.

Customer Relationship Management

The customer market is often the key market (Figure 1). Consider the marketing literature, which has discussed at great depth the importance of customer retention for corporate profit, with mounting evidence of customer retention leading to increased market share and bigger profits (Buttle 1996; Fornell 1992; Hillier 1999; Rust, Zahorik, and Keiningham 1996). Marketing tools that businesses can employ for retaining their customers are, therefore, likely to provide for a competitive advantage by contributing to product and service differentiation, as well as creating barriers for switching to other products and services. Because of that, the concept of customer relationship management has gained much currency in recent years. It has been defined as:

Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer. (Parvatiyar and Sheth 2000: p. 6)

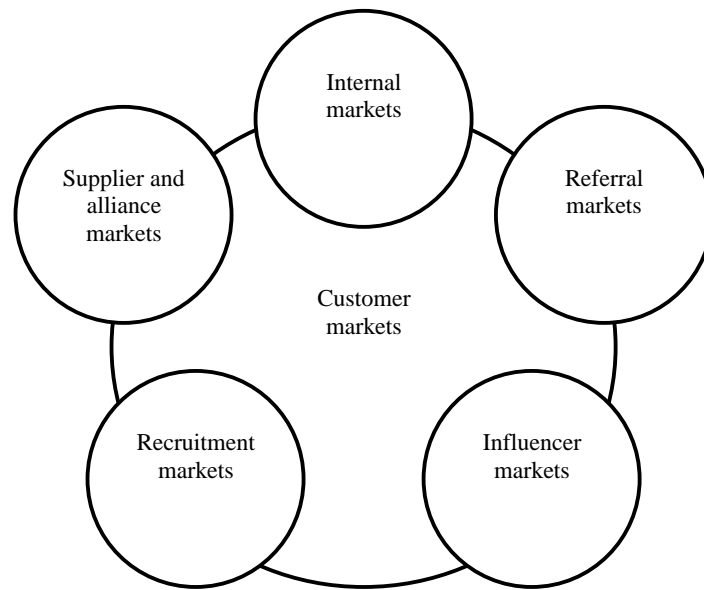


Figure 1. The multiple markets model

Source: Christopher, Payne, and Ballantyne (1991, page 21)

Research Issue

Although customer relationship management has been around for several years it has been noted that the term means different things to different authors. As a result, there is little consistent story of how customer relationship management fits into the greater marketing landscape. This is one reason why many of the dot.com businesses, which have embarked upon customer relationship management, have hit the wall in the last 12 months (Kjærdsdam 2001; Lindgreen 2001a). The challenge for practitioners, therefore, becomes how best to evaluate the financial performance of such programmes.

The greatest challenge to the theoretical development of customer relationship management has perhaps been the lack of empirical investigations that aim at describing and exploring how to determine the financial impact of customer relationship management programmes.

In this paper, the authors discuss a conceptual framework that allows for a financial evaluation of programmes in areas that are relevant to customer relationship management. The specific purpose of the research is the following:

- To examine a conceptual framework that allows for a financial evaluation of programmes in areas that are relevant to customer relationship management.
- To consider the development of a marketing scale that allows for such a financial evaluation; and
- To outline the actual methodology.

Conceptual Framework

Customer relationship management is the hot topic in the marketing literature these days. Economic reforms in many countries, and the invention of the Internet, have set the pace for this trend. Companies want to build and maintain a good track of customer relationship management in order to survive or grow in the cutthroat competition. Consciously or sub-consciously, these companies want to improve their financial performance. So far in the literature very few studies that directly investigate this relationship.

Two aspects of the research methodology need to be developed: first is the scale to measure the extent/categories of customer relationship management to which a company can be classified. Second is the model to measure the impact customer relationship management on performance by controlling the compounding impact of other factors that impact upon performance.

Development of Customer Relationship Management Scale

Customer relationship management can be thought of as a continuum ranging from very low customer relationship management conscious companies to very high customer relationship management conscious companies (e.g., Grönroos 1991; Webster 1992). A scale instrument should be developed that can measure the extent of customer relationship management programmes pursued by a company. It is intended to develop a scale to classify a company into a category of low, middle, or high customer relationship management conscious companies.

Unlike in the market orientation and performance relationship studies (Narver and Slater 1990), no study was found that had developed and used a scale to classify a company into the respective category of low, medium, or high customer relationship management conscious company. We believe that a company, consciously or sub-consciously, ultimately is interested to lift its profit, and that customer relationship management is the important tool used by any company to achieve this. The most important area of research in this field is, therefore, the development of such a scale. A draft prototype of the scale, which we intend to use in the future for such type of studies, was developed (see appendices).

Financial Performance

In large companies, there is a separation between ownership and management, and in such companies growth seems to be the most plausible goal of managers while owners are most interested in profit maximisation (Baumol 1967; Penrose 1959). Based upon the literature, two measures of performance were used: profitability and growth. Profit measures include net profit, return on shareholder's fund, and return on assets, whereas growth measures include growth in sales and growth in assets.

There are two types of performance measures available to measure the financial performance: subjective and objective. Daves (1999) empirically investigated the relationship between these two measures and found a strong relationship between them. Given this, we thought it appropriate to use subjective measures of performance. This approach is already in use in this field of study (Ngai and Ellis 1998).

Development of Model to Measure Performance

There are number of factors that impact the performance of any company, and customer relationship management is considered as one important factor. We suggest employing linear regression model to investigate the relationship by including other possible variables of performance as control variables to control for the confounding impact of these variables on performance.

Control variables

There are, of course, a myriad of influences other than customer relationship management that can impact on company performance, and we cannot hope to include all, or even most of these, in this analysis. However, we do want to control for five likely effects: age, industry type, size, leverage, and skill. We discuss each in turn.

Age: We expect that older firms will outperform the younger ones. An old firm may grow faster and earn a higher rate of return because it has established itself in the market and has certain core skills and experiences, which its younger counterparts may not have.

Industry type: Industry characteristics are vital in the analysis of firm performance. For example, firms in new and expanding industries are expected to outperform those operating in old and declining industries. Firms in particular industry may be earning profits that are comparatively above normal due to certain attributes of the economy of the country or by virtue of some favourable structural variables. Similarly, some structural variables may allow firms in particular industries to be in a better position to implement their strategies successfully and profitably (Pant 1991). Hence, we have reasons to believe that industry type affects the performance of firms (Grant, Jammine and Thomas, 1988; Hamilton and Shergill 1993).

Size: There have been several studies of the relationship between size and financial performance. Big firms have been considered to be endowed with certain advantages such as lower costs and higher returns on account of access to capital market (Hall and Weiss 1967), as well as economies of scale (Montgomery 1979). Hence, generally a positive relationship is set for a size-performance relationship.

Leverage: Leverage has been widely employed in studies on performance (Hall and Weiss 1967; Hamilton and Shergill 1993; Pant 1991; Scott and Pascoe 1986). The capital structure or leverage of a company is a significant managerial decision, which reflects management's choice between shareholder's return and risk. It will magnify the shareholder's earnings when the cost of debt is lower than the company's rate of return. However, the leverage happens to be unfavourable when the rate of return on the company's assets is lower than the cost of debt capital. We assume that mostly firms will venture to borrow capital when they expect that they will be able to earn more than the cost of debt capital and, hence, a positive relationship between leverage and performance.

Skill: From sometime back, importance of human capital is being realised in the field of economic development and growth. Salary, status, power and security of personnel employed in the company have been considered to have a linkage with corporate growth (Barna 1962; Penrose 1959). Various researchers in their studies of performance analysis have postulated a positive association between the skill of employees and financial performance of the

organisation (Siddharthan and Dasgupta 1983). Caves (1974) considered the high skill levels of firm's employees in the industry to be an important source of monopolistic advantages. It is expected that training expenditure on employees would increase their efficiency. Hence a positive relationship is expected between the training expenditure on employees and financial performance of the firm.

Research Methodology

A postal questionnaire will be sent to all 87 members of the Association of New Zealand Advertisers in early 2002. This association has as its membership all the major brand marketing organisations in New Zealand, including major fast moving consumer goods companies, airlines, banks, petroleum, pharmaceutical and automobile companies. Respondents will be either marketing managers or marketing directors within their respective organisations.

The regression model we intend to use is as below:

Performance =

$$\begin{aligned}
 &B_0 + \\
 &B_1 (\text{CRM-Medium}) + \\
 &B_2 (\text{CRM-High}) + \\
 &B_3 (\text{Size}) + \\
 &B_4 (\text{Leverage}) + \\
 &B_5 (\text{Skill}) + \\
 &B_6 (\text{Industry Type}) + \\
 &E
 \end{aligned}$$

In this formulation, CRM-Medium and CRM-High, as well as industry Type, will be entered as dummy variables with the value of 1 or 0 depending upon the customer relationship management and industry type. Note that for the CRM-Low category the dummy variable is excluded because if all the binary variables are included the normal regression equation will not be independent and will thus not have a unique solution. Hence, B_0 includes (amongst other things) the effect of the CRM-Low category (see Neter and Wasserman 1974: p. 299). The co-efficient of other customer relationship management variables represent the differential performance associated with these customer relationship management categories as compared with the CRM-Low category. For example, if $B_0 = 0.20$ and $B_1 = 0.05$, this would indicate that, on average, companies with CRM-Medium category obtain a 25 per cent return on the performance variable, which could be 5 percentage points above the average for CRM-Low category companies. (For a discussion of binary models, see Kmenta 1971: pp 409-429.)

Conclusions

The main objective of this paper is to develop a conceptual and theoretical framework to measure the impact of customer relationship management on company performance. In this

paper we proposed two aspects of how to go about investigating the research question. First was the development of a scale to measure the extent of customer relationship management and second was how to control the impact of possible factors on perform. Then, at the end, we proposed a regression model, which will be used to investigate the relationship. The described framework will set the pace for future studies in the area.

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APPENDIX

Date -----

Dear (Association of New Zealand Advertisers in mailing list details; if possible, Australian list also)

Survey:

Firms' CRM orientation and its impact on the financial performance of firms

As we enter the 21st century, many changes have taken place across the marketing landscape, from promotion to direct marketing to the incredible growth of the World Wide Web and E-commerce. In the marketing scenario this has led to a major shift from a seller's market to a buyer's market. Nowadays, due to this shift, the consumer's significance in determining a firm's marketing strategies has assumed greater importance. It is the consumer who increasingly dictates the terms of marketing transactions.

Due to this shift, companies are considering formulating of business strategies that incorporate increased consumers' roles. The shift in this strategy is a new phenomenon, and many companies have started formulating strategies on this line. There are, however, some companies who develop strategies and tactics on traditional marketing philosophies. To date, not much research has been done (and non in New Zealand, we believe) to explore the impact on the financial performance of the companies on traditional versus new strategies.

This project explores whether the perceived shift in marketing philosophy is a reality or a myth. To investigate this we need to (a) obtain data on your perceptions of your firm's CRM orientation, and (b) some background financial performance data. We need your help and would appreciate your sparing 15 minutes to complete the attached questionnaire and answer the questions related to CRM practices in your company. Results will be used to help and expand our knowledge and understanding of any major shift in CRM practices. All answers will be kept strictly confidential and only aggregate results will be reported.

To thank you for your participation in this study, we will send you free of charge (and only for survey respondents) a summary of the results from the completed questionnaires we receive. Simply return the completed survey in the post-paid envelope.

Thanks for your help.

Gurvinder Shergill, Massey University

Adam Lindgreen, Université catholique de Louvain

Firms' Market Orientation and its impact on the financial performance of firms

If they are CRM oriented, which of the following categories do most closely they fall in?

Highly CRM oriented	or
Low CRM Oriented	or
Low (or Not at all) CRM oriented	

Strongly Disagree *Moderately Disagree* *Neither Agree Nor Disagree* *Moderately Agree* *Strongly Agree*

1 2 3 4 5

- 1 2 3 4 5

- 1 2 3 4 5

- 1 2 3 4 5

- 1 2 3 4 5

- 1 2 3 4 5

5. Information about CRM needs is freely communicated throughout our organisation

1 2 3 4 5

6. Our competitive advantage is based on understanding CRM needs

1 2 3 4 5

7. Business functions within the organisation are integrated to serve the CRM market needs

1 2 3 4 5

8. Business strategies are driven by the goal of increasing CRM value

1 2 3 4 5

9. We frequently measure CRM delivery programmes

1 2 3 4 5

10. We pay close attention to CRM needs and programmes

1 2 3 4 5

11. Top management regularly discusses CRM programme strengths and weaknesses

1 2 3 4 5

12. Our managers understand how employees can contribute to CRM programmes

1 2 3 4 5

14. CRM programmes updates are launched when we have an opportunity for competitive advantage

1 2 3 4 5

15. We share CRM ideas and resources with other business units

1 2 3 4 5

16. We conduct research on a regular basis to find out customers' expectations.

1 2 3 4 5

17. We regularly contact customers to determine their needs.

1 2 3 4 5

18. We regularly assess the impact of prices that have on our customers' expectations.

1 2 3 4 5

Company Profile

The following information about your company would be appreciated. In fact, it would not be possible to complete the research study without this information, which would *be kept strictly confidential*, and only the aggregate information of all the sample companies will be discussed in the study.

1. Your job title
2. Total length of your time with this company
3. Number of years the company has been in the business in New Zealand
4. Type of industry you company is in (e.g., manufacturing, trading, servicing)
5. Company's total annual sales in the last three fiscal years
6. Average net profit/loss after tax in the last three fiscal years
7. Average return on share holders fund (in percentages) in the last three fiscal years
8. Average return on assets (in percentages) in the last three fiscal years
9. Average growth in sales (in percentages) in the last three fiscal years
10. Average growth in assets (in percentages) in the last three fiscal years

11. Average total assets in the last three fiscal years
12. Average debt-equity ratio (in percentage) in the last three fiscal years
13. Average number of full time equivalent employees in the last three fiscal years
14. Average market share of your sales/business in the total industry sales/business in the last three fiscal years
15. Average advertising expenses percentage to total annual sales in the last three fiscal years
16. Average CRM programme and personnel training expenses to total annual sales in the last three fiscal years
17. Average number of line extensions (products not very new to your organisation, but new to market) in the last three fiscal years
18. Average number of me-too products (products new to your organisation but not new to your market) in the last three fiscal years
19. Average number of new-to-the-world products (products new to your organisation and new to your market) in the last three fiscal years